

ACCOUNTING POLICY

1. Statutory framework

- 1.1 In terms of section 216 of the Constitution national legislation must prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing generally recognised accounting practice (GRAP), uniform expenditure classifications and uniform treasury norms and standards.
- 1.2 In terms of section 62(1)(b) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) (MFMA) the Municipal Manager must take all reasonable steps to ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with prescribed norms and standards. According to section 63(1) of the MFMA the Municipal Manager is responsible for the management of the assets and liabilities of the Municipality. For this purpose the Municipal Manager must take all reasonable steps to ensure that the Municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the Municipality and that the Municipality's assets and liabilities are valued in accordance with GRAP/GAMAP standards. Section 64 of the MFMA makes the Municipal Manager responsible for managing the revenue of the Municipality. It demands that the Municipal Manager must, for this purpose, take all reasonable steps to ensure that revenue due to the Municipality is calculated on a monthly basis and that the Municipality has and maintains a management, accounting and information system which recognises revenue when it is earned, accounts for debtors and for receipt of revenues and that all revenue received, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis. For the purpose of taking responsibility for the management of the expenditure of the Municipality, section 65 of the MFMA requires that the Municipal Manager must take all reasonable steps to ensure that the Municipality has and maintains a management, accounting and information system which recognises expenditure when it is incurred, accounts for creditors of the Municipality and accounts for payments made by the Municipality and that all financial accounts of the Municipality are closed at the end of each month and reconciled with its records.

2. Policy objectives

The objectives of this policy are –

- 2.1 to provide information on the Municipality's financial operations to management, the Council, national and provincial government and other stakeholders;
- 2.2 to account for resources in accordance with the objectives established in the IDP by the Council; and
- 2.3 to ensure financial accounting and reporting integrity.

3. Basis of accounting

Accounting records shall be maintained and reports prepared on the accrual basis of accounting and in accordance with historical cost convention, except for the revaluation of land and buildings, which are carried at fair value.

4. Accounting standards

4.1 In accordance with section 122(3) of the MFMA, read with section 91(1)(b) of the Public Finance Management Act 1999 (Act No 1 of 1999) the Municipality adopted the standards of GRAP/GAMAP issued by the Accounting Standards Board and prescribed by the Minister of Finance in terms of Government Notice No R 992 of 15 December 2005 (Government Gazette No 28095).

4.2.1 The Municipality's accounting records and financial reporting shall be done in accordance and consistent with GRAP/GAMAP. Certain transactions, events or balances may be outside the ambit of GRAP/GAMAP standards but which are included in the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants (Public Sector Committee), the International Accounting Standards (IAS) issued by the International Accounting Standards Board or Generally Accepted Accounting Practice (GAAP) issued by the South African Accounting Practices Board and the South African Institute of Chartered Accountants (Accounting Practices Committee). In appropriate cases the Municipality shall comply with the measurement, recognition and disclosure requirements of those accounting standards.

5. Presentation currency

All accounting transactions shall be recorded and presented in South African Rand.

6. Going concern assumption

The Municipality's accounts shall be prepared on a going concern basis.

7. Recording of expenditure

7.1 Expenditures shall be recorded in the accounting records when –

7.1 materials or services are ordered;

7.2 an obligation to pay has occurred; and

7.3 the impairment of an asset has occurred.

7.2 Unrestricted resources expendable for any purpose shall be accounted for in the operating account.

8. Maintenance of the financial management system and accounting records

The financial management system (FMS) shall be maintained in accordance with the principles of GRAP/GAMAP. The Chief Financial Officer shall be responsible and accountable for maintaining the FMS.

9. Funds and reserves

9.1 Resources which are restricted for use for specific operating purposes shall be accounted in accordance with GRAP/GAMAP. No resources in such funds/reserves shall be utilised for the Municipality's day-to-day operating purposes.

9.2 Resources reserved or designated for use for the construction or acquisition of fixed assets, debt service requirements, or the renewal or replacement of fixed assets shall be accounted for as Capital Reserve Fund (non-distributable reserves) in line with GRAP/GAMAP.

9.3 Capital Replacement Reserve (CRR)

In order to finance the provision of property, plant and equipment from internal sources, amounts shall be transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount shall be transferred to a designated CRR bank or investment account. The cash in the designated CRR bank/investment account shall only be utilised to finance property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised. The amount transferred to the CRR is based on the Municipality's need to finance future capital projects included in the integrated development plan.

9.2 Capitalisation Reserve

On the implementation of GRAP/GAMAP, the balance on certain funds, created in terms of the Municipal Ordinance 1974 (Ordinance No 20 of 1974) that had historically been utilised for the acquisition of property, plant and equipment shall be transferred to a Capitalisation Reserve instead of the accumulated surplus/(deficit) in terms of a directive issued by National Treasury. The purpose of the Capitalisation Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit). The balance on the Capitalisation Reserve shall equal the carrying value of the property, plant and equipment financed from the former statutory funds. When items of property, plant and equipment are depreciated, a transfer shall be made from the Capitalisation Reserve to the accumulated surplus/(deficit). When an item of property, plant and equipment is disposed of, the balance in the Capitalisation Reserve relating to such item shall be transferred to the accumulated surplus/(deficit).

9.3 Government Grant Reserve

When property, plant and equipment are financed from government grants, a transfer shall be made from the accumulated surplus/(deficit) to the Government Grant Reserve equal to the government grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer shall be made from the Government Grant Reserve to the accumulated surplus/(deficit), in order to promote community equity by ensuring that future depreciation expenses that will be incurred over the useful lives of grant funded property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit). When an item of property, plant and

equipment financed from government grants is disposed of, the balance in the Government Grant Reserve relating to such item shall be transferred to the accumulated surplus/(deficit).

9.4 Donations and Public Contributions Reserve

When property, plant and equipment are financed from public contributions and donations, a transfer shall be made from the accumulated surplus/(deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer shall be made from the Donations and Public Contributions Reserve to the accumulated surplus/(deficit) in order to promote community equity and to facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions. When an item of property, plant and equipment financed from government grants is disposed of, the balance in the Donations and Public Contributions Reserve relating to such item shall be transferred to the accumulated surplus/(deficit).

9.5 Self-Insurance Reserve

The Municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally. The balance of the Self-Insurance Reserve shall be determined based on 5% of the insurance risk carried by the Municipality and the past claims history and shall be reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund shall be invested in short-term cash investments. Claims shall be settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

9.6 Revaluation Reserve

The surplus arising from the revaluation of land and buildings shall be credited to a non-distributable reserve. The revaluation surplus that is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/(deficit). On disposal, the net revaluation surplus shall be transferred to the accumulated surplus/(deficit) while gains or losses on disposal, based on revalued amounts, shall be credited or charged to the Statement of Financial Performance.

10. Accounting for assets (property, plant and equipment)

- 10.1 Property, plant and equipment, shall be stated at cost, less accumulated depreciation and accumulated impairment losses, except land and buildings, which shall be revalued as indicated below. Heritage assets, which are culturally significant resources and which shall be shown at cost, shall not be depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land shall not be depreciated as it is deemed to have an indefinite life. Where items of property, plant and equipment have been impaired, the carrying value shall be adjusted by the impairment loss, which shall be recognised as an expense in the period that the impairment is identified. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets shall be measured at its fair

value. If the acquired item could not be measured at its fair value, its cost shall be measured at the carrying amount of the asset given up. Subsequent expenditure shall be capitalised when the recognition and measurement criteria of an asset are met. Depreciation shall be calculated on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates shall be based on the following estimated asset lives -

Infrastructure assets	Years	Other assets	Years
Roads and paving	30	Specialist vehicles	10
Pedestrian malls	30	Other vehicles	5
Electricity	20 – 30	Office equipment	3 – 7
Water	15 - 20	Furniture and fittings	7 – 10
Sewage	15 – 20	Watercraft	15
Housing	30	Bins and containers	5
		Specialised plant and equipment	10 – 15
		Other plant and equipment	2 – 5
		Landfill sites	15
Community assets			
Buildings	30		
Recreational facilities	20 – 30		
Security	5		

- 10.2 The gain or loss arising from the disposal or retirement of an item of property, plant and equipment shall be determined as the difference between the sales proceeds and the carrying value and shall be recognised in the Statement of Financial Performance.
- 10.3 The Municipality is obliged to rehabilitate its landfill sites in terms of its licence stipulations. Provision shall be made for this obligation in accordance with the Municipality's accounting policy on non-current provisions (See "Provisions").
- 10.4 Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it shall be written down immediately to its recoverable amount and an impairment loss shall be charged to the Statement of Financial Performance.

11. Revaluation of land and buildings

Land and buildings are stated at revalued amounts, being the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses on the buildings.

12. Investments

12.1 Investment in financial instruments

Financial instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, shall be stated at cost. Where investments have been impaired, the carrying value shall be adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount shall be charged or credited to the Statement of Financial Performance.

12.2 Investment in associate

12.2.1 An associate is an entity over which the Municipality is in a position to exercise significant influence through participation in its financial and operating policy decisions. The results, assets and liabilities of associates shall be incorporated in the Municipality's accounts using the equity method of accounting. The carrying value of the investment in associates shall be adjusted for the municipality's share of operating surpluses/(deficits) less any dividends received. Where the Municipality or its municipal entities transact with an associate, unrealised gains and losses shall be eliminated to the extent of the Municipality's or the entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

12.2.2 Where the Municipality is no longer able to exercise significant influence over an associate the equity method of accounting shall be discontinued. The carrying amounts of such investments shall be reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

12.3 Investment in municipal entities

12.3.1 Investments in municipal entities under the ownership control of the Municipality shall be carried at cost.

12.3.2 Separate consolidated financial statements shall be prepared to account for the Municipality's share of net assets and post-acquisition results of such investments.

12.4 Interests in joint ventures

12.4.1 A joint venture is a contractual arrangement whereby the Municipality and other parties undertake an economic activity that is subject to joint control.

12.4.2 *Jointly controlled operations:* The Municipality shall recognise the assets that it controls, the liabilities and expenses it incurs as well as its share in the revenue that it earned from the sale or provision of goods or services by the joint venture.

12.4.3 *Jointly controlled assets:* The Municipality's share of its jointly controlled assets and liabilities shall be recognised in the statement of financial position and shall be classified according to their nature. Revenue from the sale or use of the municipality's share of the output of the jointly controlled assets, and its share of the expenses incurred shall be recognised in the Statement of Financial Performance.

12.4.4 *Jointly controlled entities:* Interests in jointly controlled entities shall be stated at cost.

13. **Inventory**

Consumable stores, raw materials, work-in-progress and finished goods shall be valued at the lower of cost and net realisable value. In general, the basis of determining cost

shall be the first-in, first-out method. Unsold properties shall be valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs, which shall also include a proportion of overhead costs, shall be accumulated for each separately identifiable development. Redundant and slow-moving inventories shall be identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

14. Accounts receivable

Accounts receivable shall be carried at anticipated realisable value. An estimate shall be made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts shall be written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date shall be classified as current.

15. Trade creditors

Trade creditors shall be stated at their nominal value.

16. Revenue recognition

16.1 Revenue from exchange transactions

- 16.1.1 Service charges relating to electricity and water are based on consumption. Credit meters shall be read on a monthly basis and shall be recognised as revenue when invoiced. Provisional estimates of consumption shall be made when meter readings have not been performed. The provisional estimates of consumption shall be recognised as revenue when invoiced. Adjustments to provisional estimates of consumption shall be made in the invoicing period in which meters have been read. These adjustments shall be recognised as revenue in the invoicing period.
- 16.1.2 Revenue from the sale of electricity and water prepaid meter cards shall be recognised at the point of sale.
- 16.1.3 Service charges relating to sewage and refuse removal services shall be recognised as revenue when invoiced.
- 16.1.4 Interest and rentals shall be recognised on a time proportion basis.
- 16.1.5 Dividends shall be recognised on the date that the Municipality becomes entitled to receive the dividend.
- 16.1.6 Revenue arising from the sale of other services, including the issuing of licences and permits, shall be recognised as revenue when invoiced.
- 16.1.7 Income for agency services shall be recognised on a monthly basis once the income collected on behalf of agents has been quantified, consistent with the agency agreement.
- 16.1.8 Finance income from the sale of housing by way of instalment sales agreements or finance leases shall be recognised on a time proportion basis.

- 16.1.9 Revenue from the sale of goods shall be recognised when the risk is passed to the buyer.
- 16.1.10 Revenue from public contributions shall be recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the Municipality has not met the condition, a liability shall be recognised

16.2 Revenue from non-exchange transactions

- 16.2.1 Revenue from property rates shall be recognised when the legal entitlement to this revenue arises. Collection charges shall be recognised when such amounts are legally enforceable. Penalty interest on unpaid rates shall be recognised on a time proportion basis.
- 16.2.2 Fines i.e. spot fines and summonses shall be recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.
- 16.2.3 Donations shall be recognised on a cash receipt basis.
- 16.2.4 Contributed property, plant and equipment shall be recognised when such items of property, plant and equipment are brought into use.
- 16.2.5 Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure shall be recognised when the recovery thereof from the responsible person is virtually certain.

16.3 Conditional grants and receipts

Revenue received from conditional grants, donations and funding shall be recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the grant agreement. To the extent that the criteria, conditions or obligations have not been met a liability shall be recognised.

17. **Provisions**

Provisions shall be recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions shall be reviewed at reporting sheet date and adjusted to reflect the current best estimate. Non-current provisions shall be discounted to the present value using a discount rate based on the average cost of borrowing to the Municipality.

18. **Cash and cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand,

deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts shall be recorded based on the facility utilised. Finance charges on bank overdraft shall be expensed as incurred.

19. Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another organ of state and expenditure in the form of a grant that is not permitted in terms of the MFMA. Unauthorised expenditure shall be accounted for as an expense in the Statement of Financial Performance and where recovered, it shall subsequently be accounted for as revenue in the Statement of Financial Performance.

20. Irregular expenditure

Irregular expenditure is expenditure that is contrary to the MFMA, the Local Government: Municipal Systems Act 2000 (Act No.32 of 2000), the Remuneration of Public Office Bearers Act 1998 (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy, but excludes unauthorised expenditure. Irregular expenditure shall be accounted for as expenditure in the Statement of Financial Performance and where recovered, it shall subsequently be accounted for as revenue in the Statement of Financial Performance.

21. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure shall be accounted for as expenditure in the Statement of Financial Performance and where recovered, it shall subsequently be accounted for as revenue in the Statement of Financial Performance.

22. Foreign currencies

Transactions in foreign currencies shall initially be recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies shall be retranslated at the rates prevailing at the reporting date. Exchange differences shall be included in the Statement of Financial Performance.

23. Prior year comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts shall be reclassified. The nature and reason for the reclassification shall be disclosed.

24. Establishment of accounts

- 24.1 Except insofar as law prescribes the format of accounts, the Municipality's accounting records must be maintained in the form which the Chief Financial Officer deems to be the most suitable to enable her/him to manage the Municipality's finances effectively.

- 24.2 The number of accounts shall be limited to the level necessary to ensure the efficient operation of the Municipality unless required by specific agreements. All requests to create new accounts shall be accompanied by proper documentation and approved by the Chief Financial Officer.
- 24.3 Accounts shall be established in appropriate fund groups to reflect the nature of the revenues to be generated and/or the purpose of the expenditures to be incurred.
- 24.4 All changes to account purpose codes and other account specific information shall be approved by the Chief Financial Officer. Every departmental head shall notify the Chief Financial Officer on a timely basis, of any organisational change affecting reporting responsibility and any general ledger accounts to be deleted, including inactive accounts or special accounts for which the amount has been expended.

25. Reconciliation of accounts

The Chief Financial Officer shall ensure that all control accounts and subsidiary records are reconciled on a monthly basis.

26. Changes to the financial management system

All changes to processed information in the FMS shall be done through properly authorised journal forms.